

Income from the conduct of classes by a professional association exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 in order to qualify persons for a specific status within the particular profession does not constitute gross income from unrelated trade or business subject to the tax imposed by section 511 of the Code.

Advice has been requested whether income from the conduct of classes by a professional association exempt from Federal income tax under section 501(c)(6) of the Internal Revenue Code of 1954 is gross income from unrelated business subject to the tax imposed by section 511 of the Code under the circumstances described below.

The association is composed of members of a particular profession who have joined together to promote their common business interests. Its activities include a program designed to raise educational standards within the profession. In order to achieve a particular status within the profession, an applicant must pass a written examination designed to test his professional qualifications.

The association conducts classes for anyone desiring to take the qualifying examination. Tuition is charged for these classes. Any net income is devoted to other activities of the association which promote the members' common business interest.

Section 511 of the Code imposes a tax upon unrelated business taxable income of certain organizations otherwise exempt from Federal income tax under section 501. Organizations exempt under section 501(c)(6) of the Code are among the classes of organizations which are subject to this 'unrelated business income' tax.

Section 513 of the Code defines the term 'unrelated trade or business' as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its exempt purpose or functions.

Improvement of business conditions in one or more lines of business as a whole is a purpose for which exemption is granted under section 501(c)(6) of the Code. The conduct of classes in the manner described to develop and improve the skills of those in a given profession is an activity substantially related to an accomplishment of such purpose. Therefore, it is not unrelated trade or business within the meaning of section 513 of the Code and, thus, the organization is not subject to the tax imposed by section 511 of the Code on the income derived from the classes.